Summary of Select Comments and Associated Responses to the JOT Draft Recommendations

The JOT received more than 100 sets of comments on the draft recommendations that were made available on November 20, 2012 for a 60-day public comment period. Following the closing of the 60-day comment period on January 22, 2013, the JOT team assembled to review the comments (http://ww2.wapa.gov/sites/western/about/Pages/CommentsonRecommendations.aspx) submitted and weigh the input received as it evaluated and revised its recommendations for presentation to the Secretary of Energy. Provided below is a summary of the most frequent comments received on each of the draft recommendations with a response as to how those comments were reviewed and addressed in the final recommendations.[1]
(http://ww2.wapa.gov/sites/western/about/Documents/FINALRecommendationPackage.pdf)

1A – Required Regulation Reserve Capacity

A number of the commenters questioned Western's need to reassess the regulation reserve capacity for each of its Balancing Authorities. Additional concerns were raised around what might be done with any potential excess hydro capacity resulting from a reassessment, specifically, that the excess hydro would be used to balance variable generators, rather than maximized for preference customers.

Western operates Balancing Authorities (BAs) for multiple purposes, the historic purpose being to deliver Federal hydropower to preference customers. In addition to their historic purpose, the Western BAs are responsible for integrating resource plans ahead of time and maintaining the balance of electricity generation and demand in real time. The BAs dispatch generation units with reserve capacity, usually automatically, to provide this continuous balancing or regulation of generation and load. The regulation reserve capacity helps to manage power flows on the transmission system as well as the alternating current frequency of the interconnected power system, both of which are critical to the reliability of the bulk electric power system.

It is important for Western to identify the regulation requirements for its BAs to ensure that Western has access to adequate resources to reliably operate its BAs. Western must also ensure all regulation service is accounted for properly; that the value of the Federal hydropower resources within the BAs are maximized for the preference customers; and, that the costs of regulation services are allocated appropriately to the parties that create the need for regulation within the BA. This effort builds upon recently initiated activity by Western's Operations and Power Marketing Managers.

[1] During the JOT's public outreach sessions held in July and August 2012, the customers and stakeholders in Western's Upper Great Plains region raised concerns over the Department of Energy's (DOE) April 2010 final rule amending energy conservation standards for several classes of residential water heaters. Specifically, utility companies highlighted that the new standards impacted the electric thermal storage programs that some of them administer to manage peak load. In response to the multitude of comments received through various outlets, the DOE is proposing to establish a waiver process allowing for the manufacture of certain large-volume electric storage water heaters provided they meet a set of conditions. The Notice of Proposed Rulemaking for the waiver is available at http://www1.eere.energy.gov/buildings/appliance_standards/pdfs/water_heater_nopr.pdf.

More effective utilization of regulation capacity improves the ability of Western's BA operators to follow their load and respond to contingencies, thus increasing the reliability of the interconnection, while potentially reducing the amount of reserves/capacity that otherwise has to be purchased when Western does not have enough resources available.

1B – OASIS Consolidation

There were no formal comments on this recommendation. During the comment period, a clarifying question was asked as to whether the consolidation of OASIS sites implied that transmission rates would also be consolidated.

The proposed consolidation of Western's OASIS sites is an efficiency measure that builds upon past efforts within Western to reduce costs and ensure compliance with Western's Open Access Transmission Tariff. It is not a measure to consolidate transmission and/or ancillary service rates across Western's Federal projects.

1C – Large Generator Interconnection Procedures (LGIP)

Two primary comments were received on this recommendation. The first indicated that Western must include language in its Large Generator Interconnection Agreement (LGIA) and its Open Access Transmission Tariff that the granting of transmission service to non-preference customers, be it interruptible, conditional firm, or firm, is subject to curtailment or any other actions necessary for Western to meet its statutory obligations to its preference customers. The second stated that if new proposals for amending the LGIP were received during the comment period, such proposals should not be adopted by Western without further opportunity for review and comment by the preference customers and Western's stakeholders.

As previously stated in a response to clarifying questions on the draft recommendations, no changes to the LGIA are anticipated as a result of the recommendations. Should the six specified recommendations for revisions to the LGIP be adopted by Western, it is recommended that a separate public process be conducted to solicit comments on the six specified recommended revisions, and any other potential additional revisions to the LGIP. It is possible the public process could yield different LGIP revisions and/or suggested revisions in the LGIA as a result of associated LGIP queue reforms. However, the six specified recommendations do not include changes to the LGIAs.

1D – Rate Setting Methodologies

Comments on this recommendation suggest that if it is to be further considered a clearer explanation or demonstration of its need should be articulated.

Each of Western's projects has unique operating characteristics that must be considered when establishing transmission and ancillary services rates. Western's transmission rate-setting policies, practices, and procedures are generally consistent across the organization, but the intent of this recommendation is to assess the transmission and ancillary services methodologies across Western to

seek consistency in those methodologies where possible. While seemingly innocuous, there are times when inconsistency in methodologies poses challenges in working across Western's regions and/or projects.

An example of the need for this recommendation occurred as a part of Western's operations consolidation effort between its Desert Southwest and Rocky Mountain regions. It is in Western's and customer interest to ensure consistency in rate calculation to assure appropriate costs are fully and consistently recovered for like services. In this example the consistency review exposed a gap in having different approaches to cost recovery. The overarching goal of those changes was to ensure the appropriate costs of providing a service are fully recovered from the customer using the service. Further, prudent utility practice also supports the periodic review of rate setting methodologies.

1E – Combined Transmission System Opportunities

Overall, the comments received on this recommendation were in support of pursuing these opportunities, where appropriate within Western. There were questions as to the appropriateness of including the Sierra Nevada Region and the Upper Great Plains Region in this recommendation.

This draft recommendation was proposed by the JOT based upon feedback from customers during the JOT outreach meetings, through verbal and written customer comments following the JOT Outreach meetings and the publication of the Draft Recommendations, by Western subject matter experts, JOT internal expertise and previous activity by Western with customers. Given that Western is extensively interconnected and becoming more interconnected with entities within the Colorado River Storage Project, Desert Southwest and Rocky Mountain footprints and given the benefits that have accrued to Western and the members of the Integrated System in Western's Upper Great Plains Region, the JOT believes that similar opportunities may exist for these regions and should continue to be evaluated for additional benefits in all regions.

Based upon the body of public comments, this draft recommendation was revised to acknowledge the need for collaboration with, and support from Western's customers and industry peers in the pursuit of identifying combined transmission system opportunities.

1F – Intra-Hour Scheduling

There was a request for clarification on the assumption that implementation of intra-hour scheduling would drive the use of locational-marginal pricing algorithms or be inconsistent with contract-based scheduling system.

Based upon public comments, the draft recommendation was revised, removing the language implying that intra-hour scheduling could drive the use of locational-marginal pricing or that it could be inconsistent with a contract-based scheduling system. Additional language was added to note that this recommendation builds upon past efforts by Western to establish intra-hour scheduling on a 30-minute basis and Western's current efforts with regional reliability organizations to implement intra-hour scheduling on a 15-minute basis pursuant to FERC Order No. 764.

1G – Regional and Sub-Regional Efforts to Integrate Variable Energy Resources
Comments on this recommendation centered on the need for Western to examine the work already underway by Western's preference customers and industry peers, as well as the need to ensure that any costs incurred for accommodating variable generators are borne by those generators.

Based on the public comments, two of the draft recommendations regarding variable energy resource integration were combined into a single recommendation. The recommendation asks for Western to work with its industry peers to identify issues associated with the integration of variable energy resources and to develop cost-effective solutions to address these issues on a regional and sub-regional basis. This may include, but is not limited to participation in the Joint Initiative activities within the Western Interconnection, which include the Reliability Based Control field trials and Enhanced Dispatch Tools studies conducted by the Western Electricity Coordinating Council. The recommendation also calls for Western to continue to engage in the Energy Imbalance Market studies conducted by the PUC-EIM as well as emerging efforts to investigate other means to reliably operate the electrical grid with increased penetration of variable energy resources on a sub-regional basis in the Northwest, Southwest and Rocky Mountain areas.

2A - New Transmission Products (formerly Rate Pancaking)
Comments centered on whether or not the JOT considered other options for addressing rate pancaking in addition to rate consolidation. Additional comments expressed concerns that Western-wide rate consolidation is a potential first step towards implementation of a Regional Transmission Organization.

In response to the multitude of comments received, this recommendation was revised to move beyond the concept of rate consolidation, to evaluating the potential development of new intra-regional, inter-regional, or Western-wide transmission products. These new products could allow entities conducting business across Western to eliminate a pancaked charge. Adding any new transmission products would require Western to conduct a formal public process with all interested parties.

It is believed that the development of new transmission products, where appropriate and publicly vetted, may facilitate more efficient use of available transmission capacity and more appropriate path construction and replacements throughout Western's systems. The development of new transmission products has the potential to eliminate pancaking, while at the same time avoiding cost shifts between individual power systems.

2B – Transition from Contract Path to Flow Based
Numerous comments were received indicating that the JOT overstated the potential benefits of moving from a contract-path to a flow-based approach in Western's system. Other comments emphasized the importance of Western pursuing this approach with other entities on a scale, potentially interconnection-wide that would justify the costs and avoid the creation of seams issues.

While the substance of this recommendation remained, for the most part unchanged, it is acknowledged that any potential analysis of this approach conducted by Western should ensure that outcomes are cost-effective, benefits are clearly identifiable (not overstated), and costs are neutral, or any potential cost-shift is minimized. The JOT further recognizes that a single entity such as Western, a Western region, or a single Balancing Authority may not itself represent a large enough footprint to justify incurring the transition costs and seams issues created in moving to a flow-based environment. The results of a study of the potential transition to a flow-based model would be used to determine whether potential benefits exist; e.g. yield an increase in available transmission capacity – thereby increasing revenue – not necessarily costs, capturing efficiencies, and support more reliable and efficient transmission planning, construction, and operations.

2C – Integrated Resource Planning (IRP) Program

A multitude of comments were received on this recommendation indicating a satisfaction with how Western is implementing their IRP requirements. Additional comments were received stating that the JOT's perception that a perverse incentive exists, essentially penalizing customers' hydropower allocations for successful implementation of energy efficiency, demand response, and distributed energy programs, is unfounded.

While there may exist an overall satisfaction on the part of preference customers with how Western currently implements its IRP requirements, internal to Western there is a need to: 1) conduct internal quality control to ensure Western is meeting its obligations under EPAct 1992, and that administration of the program is performed uniformly, efficiently, and effectively across the organization; and 2) ensure that customer IRP and approved alternative reports/plans are complete; conform to the statute, existing guidelines and procedures; and accurately reflect the energy efficiency and demand response activities that have been accomplished using the planning process.

Regular and periodic reviews of the program, as required by statute, ensure the program can be revised as needed to reflect any changes in resources, technology, or other developments.

3A – Integration and Aggregation of Renewable Energy Projects

Comments on this recommendation ranged from who would pay for this position within Western (e.g. existing power customers?) to whether it is Western's role to be identifying potential renewable energy projects and facilitating partnership arrangements that could lead to larger aggregated renewable energy development opportunities. It was also noted that should Western move forward with this recommendation that it would be duplicative of existing efforts within states, regions, and the federal government.

In response to the numerous comments received on this recommendation, the JOT determined not to move it forward. However, Western may conduct an internal analysis of resources already addressing related areas including the Renewable Resources Program, environmental tribal liaison, energy services

and customer service to evaluate ways to better align and optimize how it is addressing these needs to take proactive measures towards the goals stated in the recommendation.

3B – Electric Power Training Center (EPTC)

Comments on this recommendation focused on the necessary qualifications of any institution that might choose to take on operation of this facility and the need for it to be self-funding and not a continued burden on Western's preference customers.

The proposed recommendation regarding the EPTC has been superseded by recent activities at Western to engage in a study with the Federal generating agencies to re-evaluate the previous decision to close the facility. As such, this recommendation was not moved forward by the JOT.

3C – Infrastructure Investment Study

The majority of comments on this recommendation focused on the use of the terms "commercial value" and "maximum return on investment" and their inappropriateness when discussing how a PMA should be administered. Other comments centered on the duplication of work that is being done in order to comply with FERC Order 1000.

Upon consideration of input received throughout the comment period, this recommendation was not moved forward. The proposed study was considered to be duplicative of activities underway within Western's Asset Management Program as well as transmission planning activities Western regularly engages in both internally and externally with its customers, tribes, industry peers and stakeholders, including various FERC Order 1000 compliance activities.